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Entrepreneurial behavior and market performance

by

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1. Introduction

In the distribution of mens wear the forming of Strategic Alliances is taking place. The assumption is that Strategic Alliances will allow the entrepreneur to operate more profitable. In this study the behavior of small and medium sized entrepreneurs is observed. In fact two groups of entrepreneurs are observed. The first group of 234 small and medium sized retail organizations can be characterised as participants of a strategic alliance. These retailers are cooperating with each other within a strategic alliance in order to achieve a better performance. The second group of 217 small and medium sized retail organizations are operating on a fully independent basis. Both groups are active in the mens wear business in The Netherlands. In this study we will compare the two groups with each other. Behavioral differences are related to financial and market performances. The set up of the study is as follows:

1. At first we will look at the differences in the performance of the allied and non-allied retailers;
2. Secondly we will focus on the market behavior: assortment, pricing, and communication activities are studied;
3. Finaly we will relate the performances to the market behavior of the retailers.

2. Differences in performance between the allied and non-allied retailers

Performance of a retailer can be distinguished in two types of performances: there are the financial performances and the degree of professionalism. The financial performance of the retailers is measured on the basis of the anual balance sheet and state of profits and losses. The degree of professionalism is based on different standards like the degree of automation, the availability of ex- and internal information and the service degree on behalf of the customers. An overview of the differences in performance is given in tabel one. The differences are tested by using analysis of variance (ANOVA).

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Table 1: Differences in performance of the allied and non-allied retailers: productivity, profitability and professionalism

performance measure	allied	#	non-allied	#	sign.
Productivity					
- turnover per full-time equivalent	ƒ 278.099	179	ƒ 266.092	188	no
- turnover per labour hour	ƒ 141	231	ƒ 132	217	no
- turnover per m^2 selling space	ƒ 5.965	230	ƒ 7.475	211	**
- turnover per m^2 shop space	ƒ 4.341	230	ƒ 5.307	209	**
- speed of turnover	3,3	61	3,0	27	no
- average turnover per outlet	ƒ 1.059.373	232	ƒ 762.000	217	**
Profitability					
- gross profit	ƒ 433.717	232	ƒ 298.200	208	**
- gross profit margin	40,1%	232	37,5%	208	**
- gross profit per m^2 selling space	ƒ 2.397	230	ƒ 2.888	203	no
- gross profit per full-time equivalent	ƒ 111.224	179	ƒ 100.272	188	**
- gross profit per labour hour	ƒ 56	207	ƒ 50	194	*
professionalism					
- degree of automation	48%	224	17%	210	**
- availability of management info.	21% a lot 79% little	61	4% a lot 96% a little	27	**
- the service degree	57% high 43% low	210	42% high 43% low	203	**

legenda: ƒ = Dutch guilder ** : p of F-value <.05; *: p of F-value < 010; # = number of respondents

The differences between the allied and non-allied retailers are clear. The non-allied have a higher productivity on floor space, the allied retailers heve a higher turnover, gross profit and gross profit margin, a higher profitability on labour and a higher degree of professionalism.

3. Market behavior

In order to get an insight in the market behavior of the retailers a questionair was used. We found out that the allied retailer:
- operated at a lower pricelevel;
- operated with a broader assortment;
- that they had a more intensive commercial communication patern;
- that they made more use of the a professional advertising buro.

All together the allied retailers have a more active market approach in comparison to the non-allied retailers.

4. The relation between performance and market behavior

The question is whether the differences in performance can be explained by the market behavior of the retailers. In order to get some insight in this matter multiple regression analyses is done with gross-profit and the gross-profit margin as dependent variabels and market behavior as independent variables. An overview of the analyses is given in table 2.

Table 2: Multiple regression with gross profit and gross profit margin as dependent and market behavior characteristics as independent variables.

independent variables: market behavior	**gross profit**			**gross profit margin**		
	allied	**non allied**	**total**	**allied**	**non allied**	**total**
- average price level small confectionary	0,01	-0,01	0,01	-0,11	-0,18*	-0,14**
- average price level large confectionary	-0,02	0,48**	0,23**	0,10	0,32**	0,24**
- perceived price class	0,23**	0,00	0,13**	0,14	0,16	0,14**
- turnover share small confectionary	-0,12*	-0,06	-0,07*	-0,04	0,04	0,01
- top thre barnd share	-0,03	-0,06	0,07	-0,03	-0,10	-0,09*
- % pre ordering	-0,24**	-0,12*	-0,17**	0,05	0,10	0,09
- usage special offers/sponsoring	0,04	0,15**	0,09*	0,06	0,08	0,08
- usage door-to-door media	-0,05	0,12*	0,01	-0,11*	0,05	-0,03
- usage customer card/direct mail	-0,04	0,11*	0,05	0,07	0,06	0,08
- usage displays of suppliers	0,10*	-0,06	0,05	0,02	-0,03	0,00
- dummy D1= allied retailers			0,17**			0,22**
- R^2	17,7	26,6	20,9	6,6	18,0	18,0
- significance of the equation	0,00	0,00	0,00	0,13	0,00	0,00

Tabel 2 shows that being a member of a strategic alliance has a positive effect on the performance. Furthermore we see that their are differences in the relation between the performance and the market behavior of the allied and non-allied retailers. With the allied retailers the perceived price level of their retail operation and the percentage of pre-ordering have respectively a positive and a negative effect on gross profit. The non-allied retailers show a significant positive effect on the gross profit with the average price level of large confectionary and the usage of special offerings and sponsoring. The analysis concerning the gross-profit margin shows no significant relation for the allied retailers. With the non-allied retailers again the average price level of large confectionary is dominant. The analysis show that a higher level of gross profit and gross-profit margin with the allied retailers can be explained by the fact that the allied retailers just do a better job (D1 is significant) and that they use other market instuments.